

Message Text

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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

AMEMBASSY ABIDJAN

AMEMBASSY ACCRA

AMEMBASSY ADDIS ABABA

AMEMBASSY BANGUI

AMEMBASSY BUJUMBURA

AMEMBASSY CONAKRY

AMEMBASSY COTONOU

AMEMBASSY FREETOWN

AMEMBASSY DAR ES SALAAM

AMEMBASSY JAKARTA

AMEMBASSY KIGALI

AMEMBASSY KINSHASA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LOME

AMEMBASSY MONROVIA

AMEMBASSY NAIROBI

AMEMBASSY NEW DELHI

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

AMEMBASSY YAOUNDE

AMEMBASSY LONDON

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USMISSION OECD PARIS

USMISSION EC BRUSSELS

XMT AMEMBASSY BRIDGETOWN

AMEMBASSY BUENOS AIRES

AMEMBASSY GEORGETOWN

AMEMBASSY MONTEVIDEO

AMEMBASSY NASSAU

AMEMBASSY PARAMARIBO
AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: CONGRESSIONAL COFFEE HEARINGS

1. TRANSMITTED HEREIN IS THE TESTIMONY OF JOAN BRADEN, CONSUMER COORDINATOR FOR THE DEPARTMENT OF STATE, BEFORE THE COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE OF THE HOUSE GOVERNMENT OPERATIONS COMMITTEE AND THE DOMESTIC MARKETING, CONSUMER RELATIONS AND NUTRITION SUBCOMMITTEE OF THE HOUSE AGRICULTURE COMMITTEE ON FEBRUARY 22, 1977.

2. BEGIN TEXT: THANK YOU, MR. CHAIRMEN: I BELIEVE IT IS A GOOD THING FOR CONSUMERS THAT YOUR COMMITTEES ARE HOLDING THESE HEARINGS. WHEN THE PRICE OF COFFEE RISES FROM DOLLARS 2.00 A POUND LAST SUMMER TO MORE THAN DOLLARS 3.00 A POUND NOW, IT IS CAUSE FOR CONCERN. CONSUMERS SHOULD KNOW WHY.

CONSUMERS SHOULD LET THEIR VOICE BE HEARD. ELINOR GUGGENHEIMER, CONSUMER COMMISSIONER OF NEW YORK, HAS URGED CONSUMERS TO CUT BACK ON THEIR CONSUMPTION OF COFFEE. I
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APPLAUD HER EFFORTS. UNFORTUNATELY, IN ORDER SIGNIFICANTLY TO AFFECT THE MARKET, CONSUMERS WOULD HAVE TO CUT BACK SUBSTANTIALLY. HOWEVER, I COULD GET NO ESTIMATE FROM ANY SOURCE AS TO HOW MUCH CONSUMERS WOULD HAVE TO CUT BACK THEIR DEMAND IN ORDER TO AFFECT THE PRICE. TO DATE, DESPITE THE PRICE RISE, COFFEE SALES HAVE DROPPED ONLY SLIGHTLY, IF AT ALL, ACCORDING TO GIANT FOODS VICE PRESIDENT OF CONSUMER PROGRAMS. AMERICANS DON'T WANT TO CUT BACK. THEY WANT TO DRINK COFFEE--NO MATTER WHAT THE PRICE IS.

THAT TOGETHER WITH THE WORLDWIDE SHORTAGE OF COFFEE IS WHY THE PRICE OF COFFEE IS SO HIGH. THERE IS, IN FACT, NO EVIL CONSPIRACY ABROAD. THAT IS NOT TO SAY THAT SOME PRODUCERS ARE NOT MAKING MONEY. THAT IS NOT TO SAY THERE ARE NO SPECULATORS IN THE MARKET WHO ARE TAKING ADVANTAGE OF THE HIGH PRICES AND BUYING AND SELLING TO MAKE A PROFIT. WHAT I AM SAYING IS THAT TO THE BEST OF MY KNOWLEDGE AND BELIEF THE HIGH PRICE OF COFFEE IS NOT CAUSED BY THE

INTERNATIONAL COFFEE AGREEMENT OF 1976. THE STATE DEPARTMENT IS NOT ENCOURAGING BARZIL TO KEEP COFFEE OFF THE MARKET. THE STATE DEPARTMENT DID, IN FACT, ANTICIPATE THE PRICE RISE.

LET ME EXPLAIN WHAT HAS HAPPENED SINCE THE COFFEE AGREEMENT WENT INTO EFFECT LAST NOVEMBER. THE TWO PRINCIPAL OBJECTIVES OF THE AGREEMENT HAVE BEEN MET.

FIRST, THE COFFEE PRODUCING COUNTRIES HAVE PLANTED MORE COFFEE PLANTS, WHICH WILL MATURE IN THREE YEARS. THIS WAS NOT A FOREGONE CONCLUSION SINCE SOME PRODUCERS WERE NOT EAGER TO DO SO--NOT WITHOUT GUARANTEES THAT REPLANTING WOULD NOT LEAD TO A FUTURE MARKET GLUT. TO DO THIS WE ASSURED PRODUCERS THAT WHEN PRODUCTION IS RESTORED TO NORMAL AND PRICES RETURN TO LAST YEAR'S LEVELS, QUOTAS WILL BE IMPOSED AND THE CONSUMING COUNTRIES WILL COOPERATE

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TO MAKE SURE PRICES DON'T FALL TO DISASTER LEVELS. WHEN QUOTAS ARE IMPOSED, EXCESS COFFEE WILL BE HELD IN STOCK BY THE PRODUCERS FOR INSURANCE AGAINST FUTURE FROSTS OR OTHER SUPPLY SHORTAGES.

SECOND, THE PRODUCERS ARE SENDING WHAT COFFEE THEY NOW HAVE TO CONSUMER COUNTRIES, THE LARGEST OF WHICH IS THE UNITED STATES. TO ENCOURAGE THEM TO DO THIS, THE COFFEE AGREEMENT PROVIDED THAT QUOTAS FOR EACH COUNTRY, IF THEY COME INTO FORCE TWO YEARS FROM NOW, WILL DEPEND ON THAT COUNTRY'S EXPORT PERFORMANCE DURING THE PERIOD WHEN QUOTAS ARE SUSPENDED. FOR EXAMPLE, WHEN EL SALVADOR AND MADAGASCAR SOLD COFFEE TO BRAZIL AT HIGHER PRICES FOR SOLUBLE COFFEE INSTEAD OF TO CONSUMING NATIONS, THE U.S. WARNED THEM THAT SUCH ACTION WOULD MEAN THEIR QUOTA WOULD BE LESS BY THAT AMOUNT WHEN QUOTAS WERE TRIGGERED. TO AVOID THAT EL SALVADOR BOUGHT BACK THEIR COFFEE FROM BRAZIL AND PUT IT BACK ON THE MARKET.

ON THE ONE HAND THE AGREEMENT PROTECTS THE PRODUCER WHEN PRODUCTION IS RESTORED; ON THE OTHER HAND, IT PROTECTS THE CONSUMER BY A BUILT-IN INCENTIVE TO SHIP ALL AVAILABLE COFFEE THROUGH ESTABLISHING EACH PRODUCER'S QUOTA AT THE LEVEL IT IS EXPORTING IN THIS PERIOD OF HIGH PRICES AND TIGHT SUPPLIES. WHEN THIS AGREEMENT WAS NEGOTIATED THERE WERE SHORT RESERVES AND LOW PRODUCTION DUE TO NATURAL DISASTERS IN THE COFFEE PRODUCING COUNTRIES. THEREFORE, THERE WERE FEW RESERVES TO RELEASE TO BRING PRESSURE TO LOWER PRICES. IT IS TRUE THAT BRAZIL HAS RAISED ITS EXPORT TAX FROM 23 CENTS TO 81 CENTS PER POUND DURING THE PAST 18 MONTHS. THE INCREASE IN TAX HAS NO EFFECT ON THE MARKET, BUT ONLY ON THE EARNINGS OF THE FARMERS.

NOW I HAVE MENTIONED THE INELASTIC DEMAND. DESPITE THIS INELASTICITY I DO THINK THAT OVER A PERIOD OF YEARS IF COFFEE PRICES WERE TO CONTINUE TO SOAR AS RAPIDLY AS AT PRESENT, THE CONSUMPTION OF COFFEE WOULD DROP AND CON-
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SUMERS WOULD TURN TO ALTERNATIVES SUCH AS COCOA AND TEA.

AS A MATTER OF FACT, EVEN BEFORE THE HIGHER PRICES OF THE LAST YEAR THERE WAS A GRADUAL DECLINE IN COFFEE CONSUMPTION. SO MUCH SO THAT ONE OF THE OBJECTIVES OF THE INTERNATIONAL COFFEE AGREEMENT WAS-QUOTE- TO PROMOTE AND INCREASE THE CONSUMPTION OF COFFEE BY EVERY POSSIBLE MEANS. UNQUOTE.

TO MEET THAT OBJECTIVE THERE IS A PROVISION IN THE AGREEMENT FOR A COFFEE PROMOTION FUND. IT PROVIDES THAT THE EXPORTING COUNTRIES WILL CONTRIBUTE TO A FUND TO PROMOTE CONSUMPTION IN IMPORTING COUNTRIES. HAD I BEEN INVOLVED IN THE NEGOTIATION OF THIS AGREEMENT, I WOULD HAVE HAD RESERVATIONS. ALTHOUGH IT REPRESENTS LESS THAN 2/10 OF A CENT OF THE COST OF GREEN COFFEE, CONSUMERS MIGHT WELL OBJECT IN PRINCIPLE TO HAVING AN INTERNATIONAL AGREEMENT WHICH EMBODIES CHARGES FOR ADVERTISING. OF COURSE, WE DO SANCTION HEAVY EXPENDITURES FOR ADVERTISING MANY PRODUCTS WE CONSUME, INCLUDING COFFEE, BY ALLOWING TAX DEDUCTIONS.

IN THE LAST YEAR MY JOB HAS BEEN TO SEE THAT THE DEPARTMENT OF STATE TAKES INTO CONSIDERATION THE CONSUMER POINT OF VIEW AS WELL AS THE FOREIGN POLICY AND THE PRODUCER POINTS OF VIEW.

IT IS FOR THAT REASON I AM PARTICULARLY GLAD TO SEE YOUR COMMITTEES TAKE AN INTEREST IN THE CONSUMER. I HOPE YOU WILL CONTINUE YOUR INTEREST IN FORTHCOMING TRADE ISSUES SUCH AS SHOES, TELEVISIONS, SUGAR AND MEAT. IN ALL THESE ISSUES WE MUST SEE THAT THE CONSUMER ALONG WITH THE PRODUCER IS TAKEN EQUALLY INTO ACCOUNT.

AS AN ADVOCATE FOR THE CONSUMER, I DO NOT ALWAYS EXPECT TO WIN, BUT I DO INTEND TO SEE THAT CONSUMER VIEWS ARE SOUGHT AND LISTENED TO. WHETHER BY AN INDEPENDENT AGENCY, OR BY STRENGTHENED CONSUMER OFFICES WITHIN THE EXECUTIVE
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BRANCH, OR BOTH, THIS ADMINISTRATION IS FACING UP TO THE

IMPORTANCE OF THE CONSUMER IN INTERNATIONAL ECONOMIC
POLICY AS WELL AS IN DOMESTIC POLICY. END TEXT.
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